

Message Text

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ACTION NEA-16

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CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

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FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 3587

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E.O.11652:GDS

TAGS: EFIN, IS

SUBJECT: BALANCE OF PAYMENTS OUTLOOK

1. SUMMARY: ECONOMIC ADVISER (EPHRAIM DAVRATH) TO MINISTER OF FINANCE DISCUSSED BALANCE OF PAYMENTS(BOP) OUTLOOK FOR 1974 WITH EMBOFFS RECENTLY. DAVRATH SAID THAT HIS CALCULATIONS WERE PRELIMINARY, SINCE HE HAD NOT HAD TIME TO RE-EXAMINE BOP COMPREHENSIVELY, BUT SITUATION HAD DETERIORATED SINCE NATIONAL BUDGET FORECAST. WHILE EXPORTS OF GOODS WERE UP, IMPORTS WERE UP MUCH MORE. CAPITAL ACCOUNT FORECAST OVERALL WAS SIMILAR TO NATIONAL BUDGET FORECAS. AS RESULT, DAVRATH NOW EXPECTED THAT RESERVES WOULD DECLINE ABOUT \$250 MILLION MORE THAN NATIONAL BUDGET HAD EXPECTED.END SUMMARY.

2. EMBOFFS MET WITH DAVRATH AUGUST 15 TO REVIEW STATUS OF BOP, DAVRATH SAID THAT HE HAD NOT UNDRTAKEN COMPREHENSIVE REVISION OF NATIONAL BUDGET ESTIMATES, BUT PROVIDED IMPRESSIONISTIC OUTLOOK FOR 1974 ACCOUNTS. FOLLOWING ESTIMATES THEREFORE ARE ONLY TENTATIVE.

3. DAVRATH SAID EXPORTS WERE BETTER THAN EXPECTED. DIAMONDS WOULD PROBABLY MATCH 1973 FIGURE, WHILE OTHER INDUSTRIAL EXPORTS WERE INCHING 46 PERCENT AHEAD OF 1973 PACE. MUCH OF LATTER OF COURSE
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REPRESENTED PRICE INCREASES;NONETHELESS, REAL INCREAS IN EXPORTS

SO FAR IN 1974 WAS OVER 20 PERCENT, HIGHER THAN LONG-TERM AVERAGE. HOWEVER, SERVICES EXPORTS WOULD BE LOWER THAN EXPECTED, PROBABLY ONLY 15 PERCENT ABOVE 1973. THIS WAS DUE TO VERY DISAPPOINTING TOURIST EARNINGS, WHICH WERE DOWN SHARPLY FROM 1973; HE EXPECTED ONLY \$160 MILLION EARNINGS FOR THIS YEAR. MEANWHILE, IMPORTS WOULD BE MUCH HIGHER THAN ANTICIPATED. HE ATTRIBUTED THIS TO INCREASE OF \$100 MILLION IN DIRECT DEFENSE IMPORT, \$100 MILLION INCREASE IN INDIRECT DEFENSE IMPORT, INCREASE IN ISRAELI TOURIST SPENDING ABROAD, PLUS OTHER INCREASES. ONE BRIGHT SPOT WAS THAT ESTIMATE FOR PETROLEUM IMPORTS WAS DOWN TO \$360 MILLION THANKS TO LOWER PRICE OF IRANIAN CRUDE IN SECOND HALF OF YEAR. COMBINED EFFECT OF CHANGES WAS INCREASE OF ABOUT \$300 MILLION IN DEFICIT ON GOODS AND SERVICES

4. CAPITAL ACCOUNT OUTLOOK WAS NOW SLIGHTLY BETTER THAN NATIONAL BUDGET HAD FORECAST. INSTITUTIONAL TRANSFERS (INCLUDING UJA) WERE NOW EXPECTED TO BE ONLY \$320 MILLION FOR THIS YEAR. HOWEVER, OTHER TRANSFER PAYMENTS ESTIMATES WERE INCREASED SO THAT NET TRANSFERS WOULD APPROXIMATE \$1,920 MILLION. ISRAEL BONDS WOULD BRING IN ONLY \$310 MILLION, MUCH LESS THAN EXPECTED EARLIER. (SALES TO DATE HAVE BEEN ABOUT \$220 MILLION HIS ASSISTANT TOLD US LATER). DEBUT REDEMPTION WOULD ALSO BE HIGHER THAN FORECAST. OVERALL, NET CAPITAL IMPORTS WOULD BE ABOUT \$2,500 MILLION.

5. DAVRATT ESTIMATED THAT DROP IN RESERVES WOULD BE APPROXIMATELY \$250 MILLION MORE THAN NATIONAL BUDGET FORECAST. FORECAST HAD BEEN FOR DECLINE OF \$847 MILLION; HE NOW ESTIMATED DECLINE OF \$1,100 MILLION. HOWEVER, ISRAEL MIGHT CHOOSE TO BORROW MORE ABROAD IN ORDER TO AVERT DECLINE OF THIS MAGNITUDE.

6. COMMENT. FOREGOING FIGURES FOR DECLINE IN RESERVES INCLUDE DEFICIT ON TRANSACTIONS WITH OCCUPIED TERRITORIES, WHICH ARE FINANCED MAINLY IN ISRAEL POUNDS. ACCORDINGLY, FOREIGN EXCHANGE IMPACT IS APPROXIMATELY \$165 MILLION LESS. THEREFORE, NATIONAL BUDGET FORECAST FOREIGN CURRENCY RESERVE DECLINE OF \$682 MILLION; THIS SHOULD NOW BE INCREASED TO ABOUT \$935 MILLION. DURING MEETING DAVRATH CRITICIZED BANK OF ISRAEL'S LEAKS TO PRESS ABOUT DECLINING RESERVES (SEE TEL AVIV 4661), ON GROUNDS THEY WERE UNNECESSARILY ALARMIST, ALTHOUGH HE TOO WAS CONCERNED. ON BOND SALES, WE BELIEVE DAVRATH'S ESTIMATE IS CONFIDENTIAL

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ON LOW SIDE ALTHOUGH BOND DRIVE CLEARLY HAS NOT BEEN AS SUCCESSFUL AS HOPED FOR AT BEGINNING OF YEAR. KEATING

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